

Assembly California Legislature



DIANE L. HARKEY
ASSEMBLYWOMAN, SEVENTY-THIRD DISTRICT

COMMITTEES
VICE CHAIR: APPROPRIATIONS
BANKING AND FINANCE
BUDGET
PUBLIC EMPLOYEES, RETIREMENT
AND SOCIAL SECURITY
REVENUE AND TAXATION

July 13, 2012

The Honorable Ricardo Lara
Chair, Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Dear Chairman Lara:

I am writing to request an audit of the California High-Speed Rail Authority's oversight and management of \$7.2 billion recently appropriated to the Authority within a total appropriation of \$8.02 billion for initial construction of high-speed rail infrastructure.

On July 6, 2012, the Legislature approved funding to initiate the largest state public works project in American history. In previous reports (2011-504 and 2009-106), the State Auditor raised troubling concerns regarding the Authority's weak management infrastructure, inadequate oversight capabilities, poor contract management, and overreliance on private contractors. These deficiencies continue to create a high risk for waste, fraud, and abuse, and therefore necessitate the State Auditor's continued independent monitoring.

The project will enter a critical phase in Fall 2012, as the Authority selects design-build contractors and structures the terms of agreement. Missteps during this early planning period, such as failure to adequately define and assign risk, could imperil the project for decades with massive cost overruns and lengthy project delays. Ensuring an active role for the State Auditor during these crucial months could ultimately save taxpayers billions of dollars.

To the extent possible, I request that the State Auditor review and evaluate the following:

1. Does the Authority's procedure for selecting design-build contractors abide by applicable laws and best practices? What role does the Program Manager (Parsons Brinckerhoff) play in the decision-making process, and the drafting of contract language? Is this role appropriate, and does it serve the state's best interest?
2. Has the Authority adequately identified project risks, and taken appropriate and reasonable steps to transfer risks to the design-build contractors?
3. Please evaluate the qualifications and preparedness of the management team to oversee a program of this magnitude. Has the Authority sufficiently addressed previous deficiencies identified by the State Auditor?

4. For the period covered by this audit, did the Authority implement adequate processes for monitoring the performance and accountability of its contractors? Does the Authority have adequate systems and controls in place for reviewing and verifying invoices?
5. Does the Authority have adequate systems in place for tracking expenditures? Has the authority created an accurate long-term spending plan?
6. Based on invoices, expenditures, contract decisions/modifications, status of deliverables, and inflation data, do cost and time projections presented in the 2012 Business Plan continue to appear reasonable and accurate? If not, can the State Auditor provide updated cost and time estimates for completion of the Initial Operating Segment?
7. Does the Authority adequately address and mitigate potential conflicts of interest for staff and contractors? On June 8, 2012, the Authority's Board voted to hire the Program Manager's (Parsons Brinckerhoff) Senior Vice President of Strategic Initiatives and Government Relations as its new Executive Director. Has the Authority adequately identified and mitigated all potential conflicts of interest arising from the Executive Director's former employment?
8. For the period covered by this audit, what role did the Program Manager play in making strategy and management decisions on behalf of the State? Did the Authority exercise an appropriate level of oversight? Were the Program Manager's monthly progress reports accurate and up to date?
9. Does the Board exercise appropriate oversight over staff decisions?
10. Please identify any variations in the budget or schedule. Are these variations adequately explained?
11. Pursuant to SB 1029 (Budget), approved by the Legislature on July, 6, 2012:
 - a. Has the Authority developed an accountability plan, consistent with Executive Order S-02-07? Does this plan establish adequate criteria governing the expenditure of funds, and include detailed project descriptions and associated costs?
 - b. Has the Authority contracted with the Office of State Audits and Evaluations for ongoing monitoring of expenditures?
 - c. Has the Authority taken steps to prepare the Staff Management Report, Risk Management Report, Project Update Report, and Greenhouse Gas Report, consistent with statutory requirements?
 - d. Has the Authority taken reasonable steps to fill the positions of risk manager, chief program manager, and chief financial officer?

Thank you for your consideration of this request. Should you have any questions or would like additional information, please do not hesitate to contact me at (916) 319-2073 or Daniel Ballon in the Assembly Republican Caucus Office of Policy at (916) 319-3900.

Sincerely,



DIANE HARKEY
Assemblymember, 73rd District



DOUG LAMALFA
Senator, 4th District